

**COUNTY OF SAN BERNARDINO, CALIFORNIA**  
**CENTRAL STORES INVENTORY OBSERVATION**  
**FOR THE PERIOD ENDING JUNE 30, 2006**

**Prepared by:**

**Internal Audits Section**  
**Office of the Auditor/Controller-Recorder**  
**July 18, 2006**

**County of San Bernardino  
Central Stores Inventory Observation**

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# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



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July 18, 2006

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**SUBJECT: INTERNAL AUDITOR'S REPORT ON CENTRAL STORES INVENTORY  
OBSERVATION FOR THE PERIOD ENDING JUNE 30, 2006**

## **Introductory Remarks**

In compliance with Article V, Section 6 of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, Chapters 2 of the Internal Controls and Cash Standards Practice Manual, we completed an audit of the inventory for the Central Stores, for the period ending June 30, 2006.

## **Background**

Central Stores will phase out its stores operations on October 31, 2006. Purchasing will absorb any remaining functions in FY 2007-2008.. Departments will purchase items previously ordered from Central Stores directly from vendors. Methods to accomplish this include expanding the Cal-Card Program countywide, using vendor drop shipments and just-in-time delivery of products or supplies.

## **Audit Scope**

Our overall objective was to determine whether Central Stores inventory procedures were adequate. Specifically, we determined whether:

- Physical inventory counts were accurate.
- Effective physical inventory safeguards existed.
- Significant variances existed between physical inventory counts and inventory records.

Our audit was limited to internal controls relating to Central Stores inventory valued at \$ 458,900. We accomplished our objectives using various auditing procedures including inquiry of pertinent staff, auditor observation, examination of the warehouse and stock, review of relevant documentation and validation testing.

Specifically, we judgmentally sampled \$ 97,900 in inventory (20%) for test counts. All tests and procedures were applied from June 28, 2006 to July 5, 2006 for the fiscal year ending June 30, 2006. We believe our examination provides a reasonable basis for our conclusion.

We conducted our audit according to the Standards for Professional Practice of Internal Auditing published by the Institute of Internal Auditors and the provisions of the San Bernardino County Internal Controls and Cash Standard Practice Manual.

A draft report was sent to the Central Stores and was discussed at the Exit Conference on October 5, 2006. Central Stores' management responded to our recommendations dated October 16, 2006, which are included in this report.

### **Conclusion**

Overall, we determined the Central Stores inventory procedures were adequate, but needed improvements. Physical inventory counts were accurate. Physical safeguards were effective. However, we noted control weaknesses concerning inventory variances. The needed control improvements are discussed in the Findings and Recommendations section of the report.

## **FINDINGS AND RECOMMENDATIONS**

### **Finding 1: Inventory Adjustments were not researched.**

Central Stores Policies and Procedures require staff to determine the reason for discrepancies between quantities listed on inventory records and actual quantities counted. They also require staff to determine whether any discrepancies found are the result of errors in issuing stock or data entry.

However, Central Stores staff made adjustments of \$51,700 in credits/deletions and \$32,500 in debits/additions to inventory records without determining the reason for discrepancies with quantities counted.

It is the responsibility of the Fiscal Specialist to audit inventory discrepancies; however, the position has been vacant since November of 2005. Further, Central Stores management has not adequately trained existing staff to fulfill all of the Fiscal Specialist's responsibilities. Additionally, there are no documented procedures detailing how to research inventory discrepancies.

As a result, Central stores staff adjusted \$84,500 or 18.4 percent of the June 30, 2006 recorded inventory without researching the cause for the discrepancies, precluding management from devising an effective plan to reduce inventory losses.

### **Recommendation**

The Central Stores manager should:

- Assign the task of auditing discrepancies to another staff member in the Central Stores, to include back up personnel.
- Document, Central Stores policies, detailed procedures on how to research inventory discrepancies.

### **Management's Response**

The Purchasing Department agrees with this finding as our future plans were addressed during the exit conference. Procedures will be drafted for use by Printing Services (ARMC Forms Program) since Central Stores is closing down effective October 31, 2006. These procedures will address how to research inventory discrepancies after inventories are conducted. In addition, the procedures will recommend that the Printing Services Manager audit all inventory discrepancies and respond in writing to each discrepancy.

### **Finding 2: No documentation of inventory adjustment approvals.**

Management had no documentation of approving \$84,500 in adjustments to inventory records.

Central Stores staff could not produce any record that they had in fact approved adjustments. Additionally, Central Stores management was unaware of the amount of adjustments made by its staff.

The Internal Policy and Procedures Manual state that the Fiscal Specialist is responsible for approving adjustments; however, it is a good business practice to have adjustments approved by supervisory level personnel or higher.

Management should approve all adjustments made to inventory records and document approvals. If Central Stores does not document that its management approves adjustments, their staff can adjust any dollar value of inventory without any accountability for the items.

**Recommendation**

The Central Stores manager should:

- Authorize adjustments with approval limits designated by dollar amount and position, and document the approval of adjustments.
- Document the approval process for inventory adjustments in the Central Stores Internal Policies & Procedures Manual.

**Management's Response**

The Purchasing Department agrees with this finding. Procedures will be drafted for use by Printing Services that will state who is authorized to approve inventory adjustments, designated by dollar amount and position, and will also address how to document the approval of adjustments.

Respectfully submitted,

**Larry Walker**  
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By: \_\_\_\_\_  
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Internal Auditor II

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